CattleFax THE DECIDING FACTOR

INSIGHT

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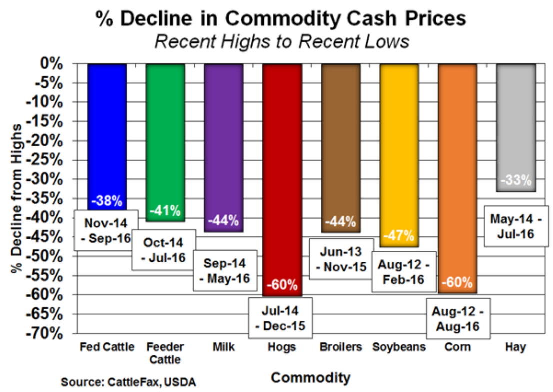
Lagging the Commodity Cycle

Market prices are going through a historic decline during this particular cattle cycle – losing more value faster than any break in 40 years. Cattle producers are not unique in this battle. All commodity markets – grains, metals, energies and proteins – are experiencing historically large devaluations. The price breaks are part of a larger 20-year commodity cycle. The protein markets generally peaked during this cycle from 2014 to 2015. Grains and other feedstuffs topped from 2012 to 2014, while energies and metals peaked from 2010 to 2011.

The proteins were able to reach highs later than the other commodities, largely because the market needed to incentivize livestock producers with better margins. That meant feedstuffs needed to move cheaper relative to beef, pork, and poultry prices to encourage additional production. Now, expansion is here. And while pork and poultry prices have retreated quickly and found some recovery, devaluation of cattle markets continues, and additional price breaks are still a risk.

The first two years of the cattle cycle downturn has been deeper than expected. Challenges came quickly as the calendar transitioned to 2015. Higher U.S. Dollar values stunted export growth. Then, the west coast port slow down halted export shipments for months. Seasonally, broiler and pork production increases from summer into winter, and the lack of global destinations for the new supply flooded the domestic marketplace into year's end.

Those challenges came as the beef industry was fighting its own battles. Feedyards carried fed cattle longer, and front-end cattle supplies became excessively abundant by year-end 2015. As a result, cattle producers handed bargaining position to processors, retailers and restaurants. The cattle industry is in a better fundamental position in 2016, but expansion is going to continue for beef, pork and poultry for the next few years. That means bargaining position will remain historically weak.



Bottom Line: Commodity market cycles have long tails – presenting additional risk to cattle producers going forward. Also, prices generally break back to the cost of production in commodity markets. Fundamentals suggests the bulk of the cattle cycle price break is behind us, but those previous thoughts present a potential roadmap. It is likely that three or more years of downside price risk exists for cattle producers. Similar to the breaks in pork, poultry and the prevailing feedstuffs, the lows may be another 10 to 20 percentage points below the recent highs.

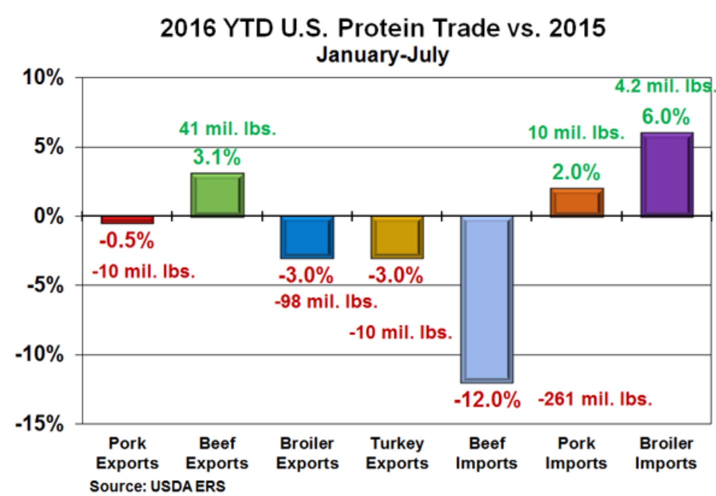
Exports Growing-More is Necessary

In the latest USDA trade data release, July beef exports were at 216 million pounds, up 8 percent versus a year ago. Year-to-date, beef exports are up 3.1 percent. Beef imports were 268 million pounds, down 7 percent from July 2015. Year-to-date, beef imports are down 12 percent. The 2016 forecast calls for a 6 percent increase in beef exports, and 9 percent decrease in beef imports versus 2015.

Pork exports this year are following the seasonal – peaking in the spring when production is higher and slowing into summer. July pork exports were 403 million pounds, up 1.9 percent versus 2015 and down 0.5 percent year-to-date. The pork export forecast calls for a 1.5 percent increase by year-end compared to 2015. China is largely to credit for the increased pork exports – up 141 percent or 203 million pounds year-to-date. Without the year-over-year increase from China, U.S. pork exports would be 7 percent below year-ago levels.

Broiler exports struggled in first half 2016, with five of the first six months seeing year-over-year declines. Aided by increased shipments to Angola, Cuba and Georgia, July broiler exports were 564 million pounds, up 12 percent from 2015 and down 2.6 percent year-to-date. CattleFax forecasts broiler exports to be up 1.5 percent by year-end versus 2015.

Bottom Line: Beef exports are performing well in 2016. Pork and poultry are on track to meet forecasts, but stronger 2016 protein production places more importance on growing U.S. exports for all three major proteins going forward.



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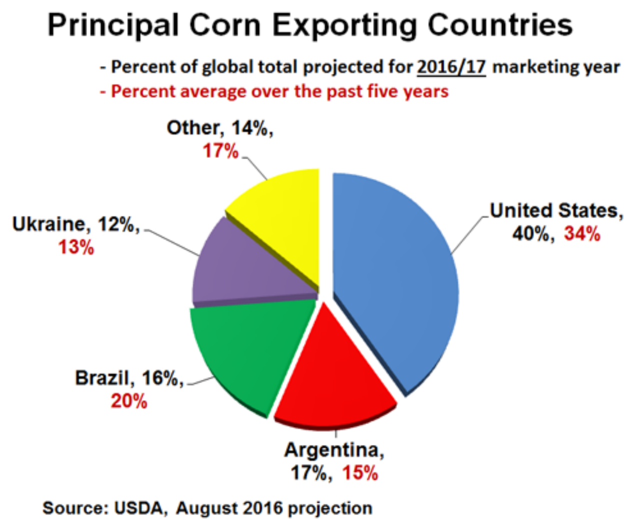
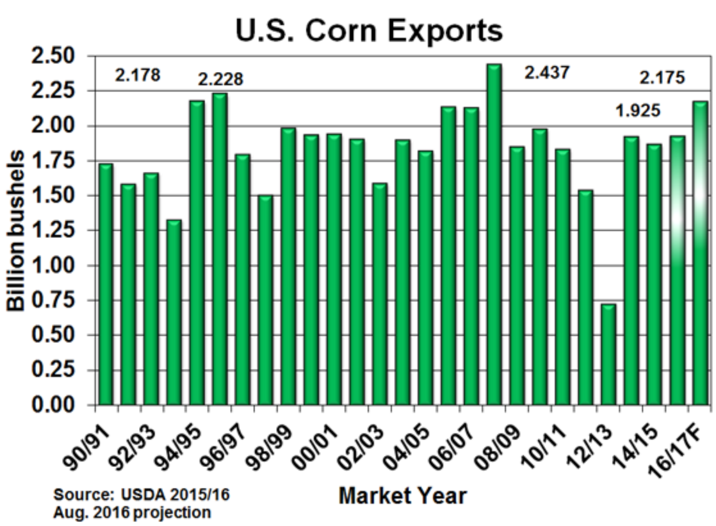
Quarterly Corn Exports Record High

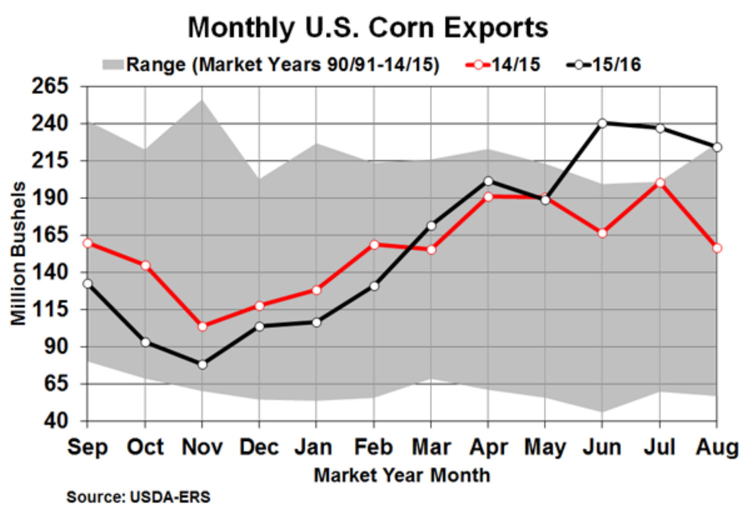
The month of August 2016 was the final month of the 2015/16 marketing year, a year in which projections for U.S. corn exports were extremely volatile. Total exports for the marketing year were projected at 1.925 billion bushels by USDA last month and the final tally is expected to be from 1.900-1.925 billion bushels. The current USDA export projection for the new crop marketing year (2016/17) stands at 2.175 billion bushels, which if realized, would be the largest total since 2007/08.

Early projections for 2015/16 U.S. corn exports ranged from 1.850-1.900 billion bushels from May through October 2015, but those projections dipped as low as 1.650 billion bushels in the spring of 2016 as offerings outside of the U.S. were much more competitive on the world market. However, when South American corn exports dropped from record high levels during the September ’15 through February ’16 periods to the lowest levels in years during the March ’16 through August ’16 period, U.S. corn exports soared higher. In fact, in Q1 of the 2015/16 market year U.S. corn exports totaled only 305 million bushels and were the second smallest in 41 years. In Q4 however, U.S. exports soared to over 700 million bushels, exceeding the previous Q4 record of 676 million bushels during the 1978/79 market year.

Bottom Line: After an extremely slow start to the 2015/16 market year, U.S. corn exports ended up capturing approximately 41 percent of the total global corn export market share, rebounding from the previous 5-year average of 35 percent. U.S. corn stocks-to-use levels are expected to range from 14-16% through end of year, which supports the practical range for spot corn futures prices from $2.95-$3.15/bu on the low end, with resistance from $3.60-$3.75/bu on the high end.







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